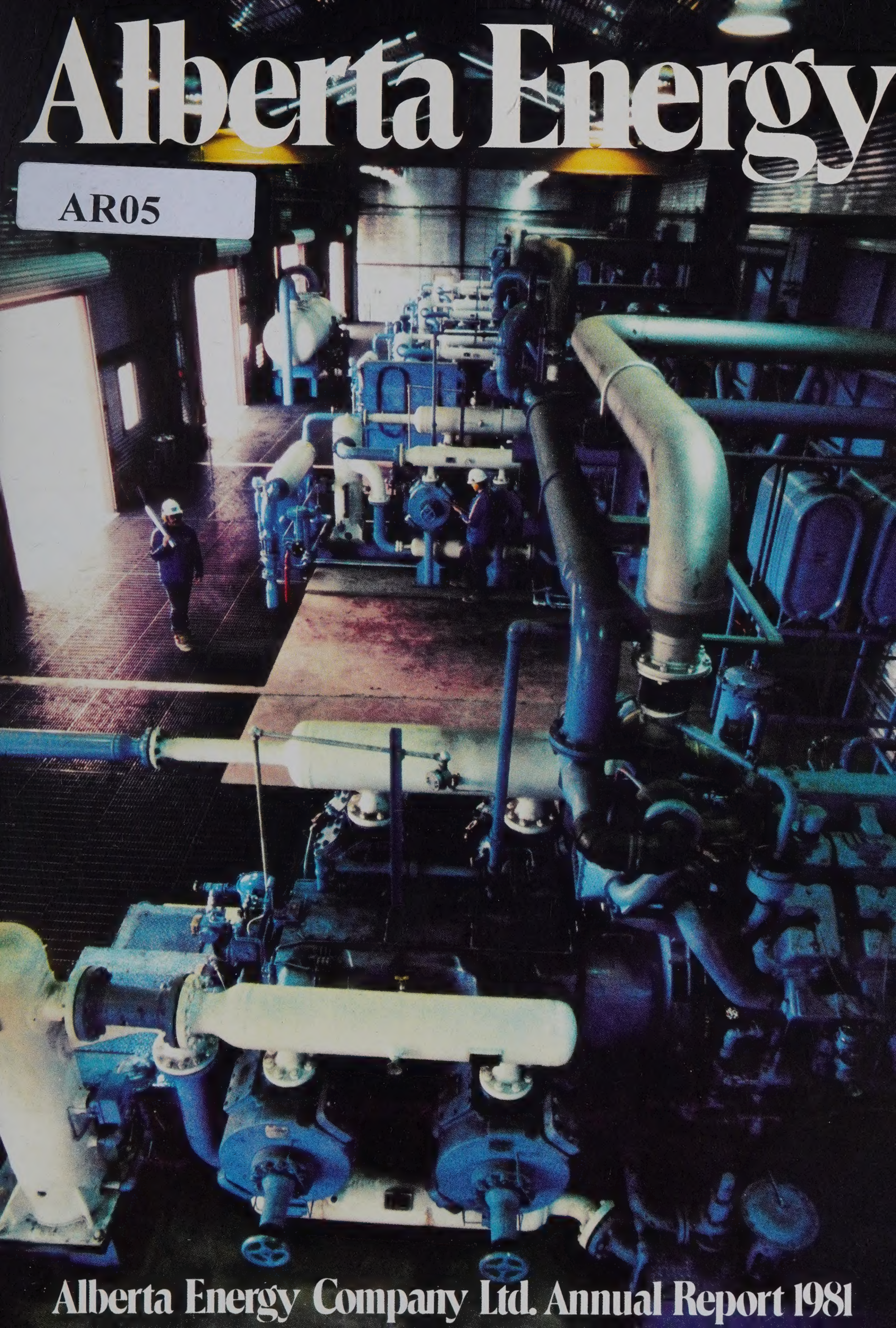
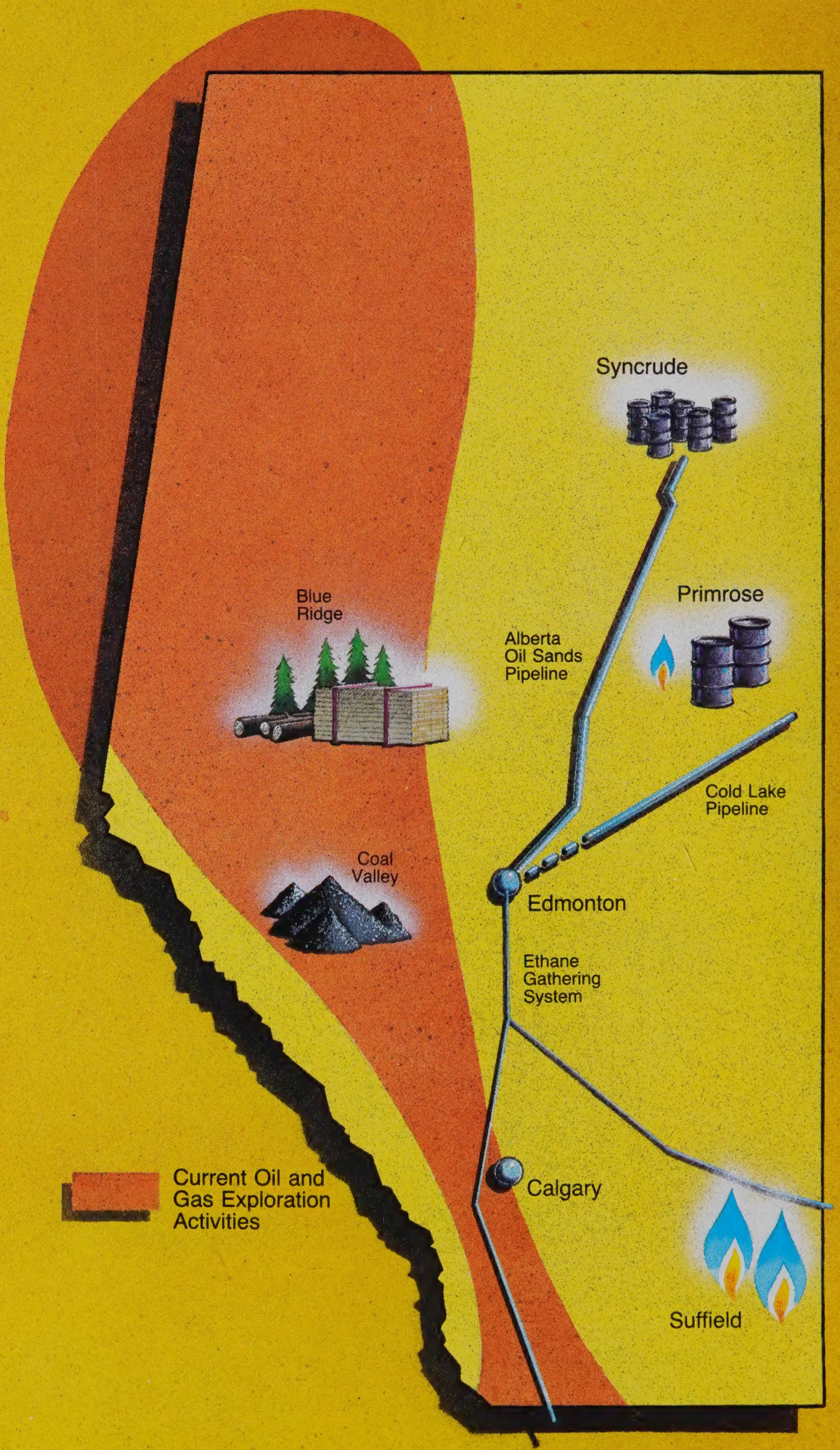
Alberta Energy



Alberta Energy Company Ltd. Annual Report 1981


Syncrude
Primrose
Alberta
Oil Sands
Pipeline
Blue
Ridge
Cold Lake
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System
Current Oil and
Gas Exploration
Activities
Calgary
Suffield

CONTENTS:

The cover photo is taken inside AEC's Compressor Station "D" at the Suffield Block.

Highlights

FINANCIAL	**1981**	**1980**
(All dollar amounts, except per share amounts, are in millions)		
Revenue, Net of Royalties	**$285.1**	$232.6
Net Earnings Before		
Extraordinary Item	**42.4**	57.4
Per Share	**0.93**	1.26
Net Earnings After		
Extraordinary Item	**29.7**	—
Per Share	**0.65**	—
Cash Flow	**92.3**	115.6
Per Share	**2.03**	2.54
Federal Petroleum Gas		
Revenue Tax	**15.6**	—
Interest Costs	**45.1**	17.4
Long-Term Debt	**518.1**	251.8
Total Assets	**1,036.9**	702.7
OPERATING		
Gas production		
Billions of cubic metres	**1.7**	1.3
Billions of cubic feet	**58.5**	46.5
Oil production		
Thousands of cubic metres	**492.5**	491.0
Millions of barrels	**3.1**	3.0
Coal production		
Thousands of tonnes	**684.1**	600.2
Thousands of tons	**754.1**	661.6
Pipeline throughput		
Millions of cubic metres	**4.7**	4.7
Millions of barrels	**29.7**	29.7

CORPORATE

- Conventional oil and gas exploration was initiated with participation in a 3-year, $133 million program.
- Investment in forestry resources was increased by the purchase of an additional 60 percent interest at Whitecourt and 28 percent of British Columbia Forest Products.
- Work continued on possible petrochemical projects.

Annual Meeting

The annual general meeting of shareholders of Alberta Energy Company Ltd. will be held in The Westin Hotel, 10135 - 100 Street, Edmonton, Alberta at 3:00 p.m. local time on Wednesday, March 31, 1982.

Copies of the Company's 1981 annual report may be obtained by contacting the office of the Secretary of the Company at Alberta Energy Company Ltd., #2400, 639 Fifth Avenue S.W., Calgary, Alberta T2P 0M9.

Industry Comment

1981 was a difficult year for Canadians. Bank prime interest rates were changed 16 times during the year, climbing to a high of 22¾% and ending the year at 17¼%. Unemployment rose, bankruptcies jumped and energy costs increased dramatically, as new taxes were imposed. All in all, it was not the type of year that is apt to be fondly remembered. To date, 1982 seems to be offering more of the same.

There has been a tendency in this country to rely upon our natural resources to provide what we need and to merrily spend away knowing that, somehow, all will be well. In the past, things have worked that way, but the time has arrived when economic issues must be faced with realism.

Global economic events, particularly in the United States, are a major influence on Canada. So are our domestic monetary and fiscal policies. The ongoing increases in interest rates, unemployment and inflation which occurred in the latter half of 1981 and continue in 1982 are not caused only by recent decisions; they stem in considerable measure from the accumulation of years of massive government deficits, much of the borrowing occurring at times when the economy was already buoyant. This not only added to debt and increased interest charges, it created higher expectations than the economy could sustain.

There is a bit more adjustment to come. Taxes on energy are scheduled to become higher in the next few years, as Canadian domestic energy prices phase-in to world levels. This inflation factor is yet to be absorbed by Canada.

As is evidenced by consumers' natural gas bills, indirect taxes on energy are skyrocketing. And, over the longer term, the costs of new federal corporate taxes will be borne by the ultimate recipient of all bad news — the consumer. The 1981 Memorandum of Agreement on energy at last provided an alternative to the long and difficult controversy that plagued the country. It is, though, a classic illustration of what can happen when all parties are not present at the bargaining table. Government receives the money; consumers pay the costs; and the energy business receives the blame. After the Agreement, and in the midst of international downturn, came the shattering November 1981 federal budget, which has proven to be about as subtle as a sledgehammer to those who wish to invest.

In 1982 the Alberta Energy Company expects to pay $32 million in cash taxes for the new federal Petroleum Gas Revenue Tax. And in 1982 the Syncrude synthetic oil plant, which is the type of investment supposedly being encouraged to help develop new oil supplies, is expected to pay about $380 million directly to governments, even though the plant is not yet yielding anything like a reasonable return. Surely the investors in synthetic oil projects must be offered fairer treatment than this if other plants are to be encouraged. The new Petroleum and Gas Revenue Tax certainly should not apply at least until investors have recovered their original capital.

Much is being made of the federal government grant system to encourage oil and gas exploration. This attempt to have industry efforts directed by bands of bureaucrats is not the solution to energy-finding for Canadians. The world of IORT's, NORP, PIPs, DPCCs, COR, and a myriad of other governmental directives will lead to one type of expertise: filling out forms and applying for handouts. Could there not be a sincere, concerted effort to reduce the number of forms and reports instead of endlessly adding to them? The use of the dole for corporations will not solve this country's economic woes or make energy-finding more efficient. What is needed, along with lower interest rates, is far, far less bureaucracy and more room for unstifled initiative.

Report to Shareholders

As reflected in the Highlights page and elsewhere in this report, there were several favourable areas in the Company's 1981 operations. Gas production, for example, was up 26 percent over 1980. As well, both the Coal Valley project and the pipelines division performed better than in the previous year. Financial results, however, were severely hampered by high interest rates, the imposition of the new Petroleum and Gas Revenue Tax and the general economic conditions. In actual terms, the Company's 1981 interest expense totalled $45.1 million, (up $27.7 million) while the Petroleum and Gas Revenue Tax amounted to $15.6 million.

During 1981, exploration results continued to add to oil reserves at Primrose, with estimated AEC heavy oil in place increasing from 1.3 to 2.8 billion cubic metres (8 to 17 billion barrels).

On the Suffield Block, gas development continued at a good rate, and production increased significantly. At year-end there were 1,681 completed gas wells.

Technical and other modifications continue to be made at Syncrude, which should lead to increased productivity and cost control during 1982 and subsequent years.

Oil and gas exploration in areas beyond the Suffield and Primrose military ranges was initiated in the latter part of the year, with a substantial farmin of lands in the western Canadian sedimentary basin. Additional plans for increased oil and gas exploration activity are being developed at this time.

In the pipelines division both the Alberta Oil Sands Pipeline and the Ethane Gathering System continue to perform well. The new Cold Lake bitumen blend pipeline is nearing completion, with 14.5 kilometres of line construction remaining.

The Coal Valley mine is undergoing modifications to increase its capacity, and the results are already being seen with increased production in 1981.

During the past year the Company increased substantially its holdings in the forest products industry, through the purchase of 28 percent of British Columbia Forest Products and by increasing to 100 percent its ownership of the Whitecourt Forestry Complex near Blue Ridge, Alberta.

Petrochemicals were also a significant feature of AEC's 1981 activities. Work continued on possible polyethylene and ethylene projects. Early in 1982 the Company's co-venturer in the Petalta Project's benzene and styrene plants withdrew, and potential new partners are being sought for these ventures. It was considered desirable for prudent financial reporting to provide for write-off of the Petalta Project, even though there remains a possibility that the project will be reactivated with a new partner or partners.

During January of 1982, the Company was pleased to obtain shareholder support to authorize two new classes of preferred shares. This provides added flexibility in raising additional capital.

1982 results are especially difficult to predict at this stage of major adjustments in the economy. In many ways, it is not a time for optimism; yet several possibilities, such as expectation of higher gas production, suggest that AEC's financial results will improve over 1981. While 1982 will be a year of economic uncertainty, AEC's operations and plans are positioned to take advantage of renewed economic growth.

David E. Mitchell
President and Chief Executive Officer

Corporate Background

Alberta Energy Company Ltd. is a wholly Canadian-owned company established to encourage Albertans and other Canadians to participate in the development of energy and natural resources. AEC became a public company in 1975 when the Alberta government and the general public each purchased $75 million in shares.

At the end of 1981 the Company's shareholders totalled 52,841. Approximately 55 percent of them hold 100 shares or less. Common shares outstanding at year end were 45,491,255.

AEC employs 308 people, located in Calgary, Edmonton and Medicine Hat/Redcliff offices. An additional staff of 88 are engaged in field operations. Ninety-three percent of employees are shareholders.

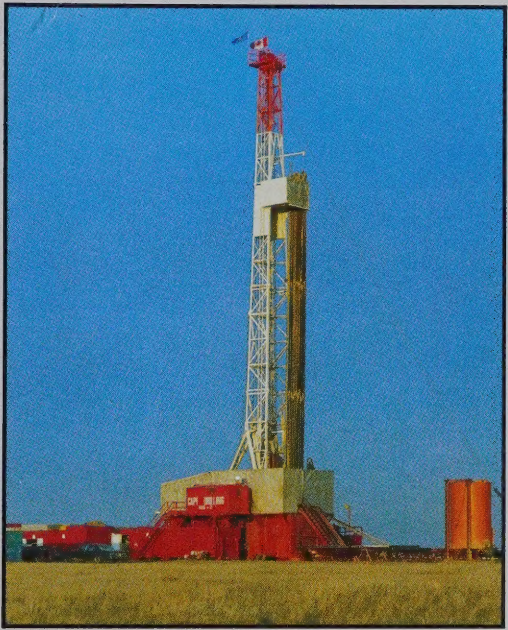
Since the Suffield Block shallow gas drilling program began in 1976, the Company's activities have expanded to include pipelining, coal, forestry, petrochemicals, oil sands and oil and gas exploration.

A principal object of AEC is to operate at a profit in the best interests of all of its shareholders. Emphasis has been on new, capital-intensive projects, although acquisition of interests in existing enterprises is not precluded. Alberta projects are of special interest, but the Company has made, and may make in the future, investments outside the province.

The form of AEC's participation in projects depends upon the circumstances surrounding each one. In addition to undertaking projects on its own, through affiliated companies or joint ventures, AEC participates in projects with others having appropriate expertise and experience. The Company prefers participation which permits direct cash flow and tax utilization to be received by AEC.

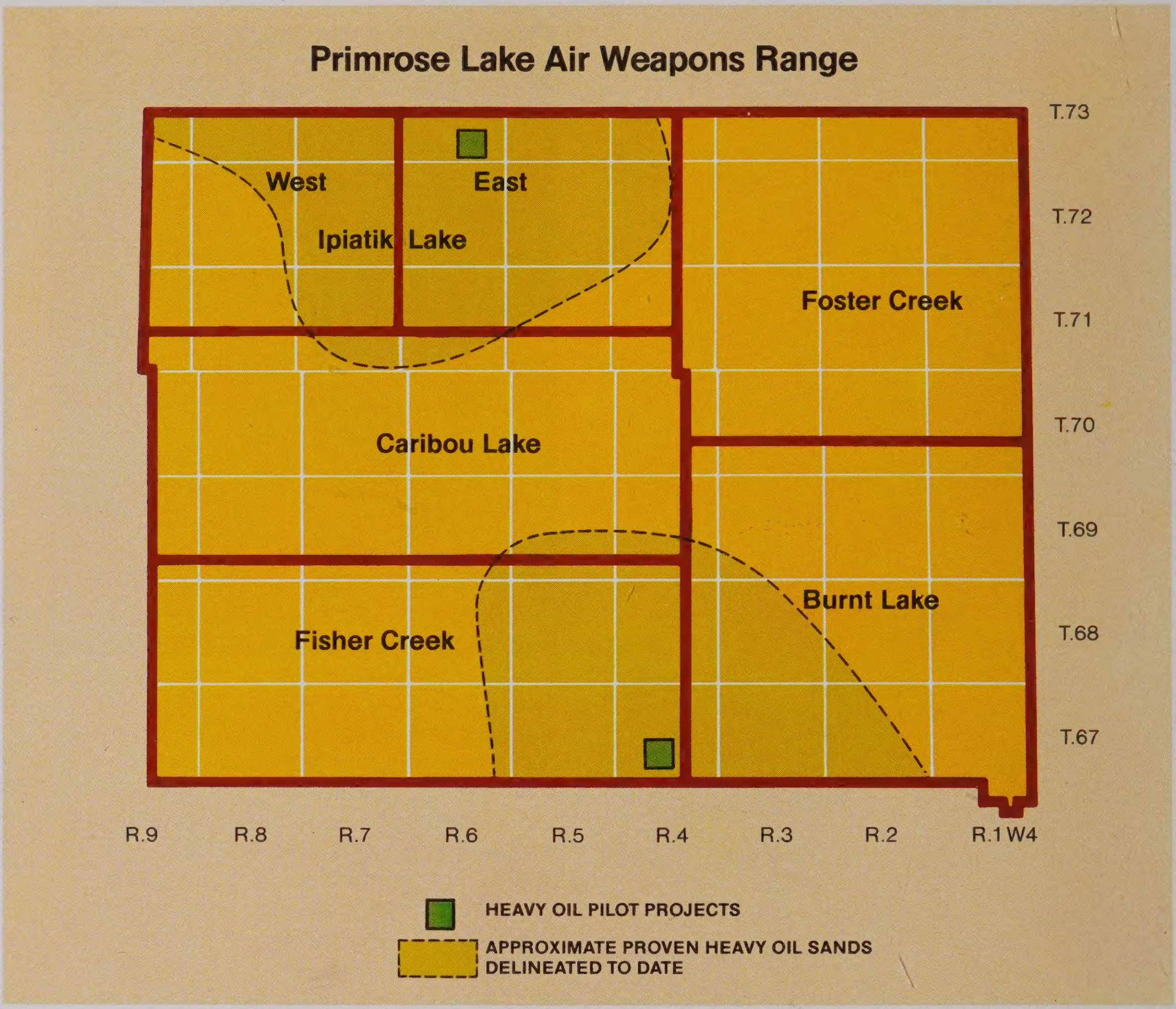
Alberta Energy foresees expanded involvement in conventional oil and gas, since further exploration is needed to maintain and build oil and gas reserves. This will be done by various means, including joint ventures, farmin agreements, and bidding at Crown sales. Under appropriate circumstances, acquisition of an existing enterprise could be part of this program.

1981 Operations



"It is to the credit of both the Department of National Defence and Alberta Energy Company that through exemplary cooperation and scheduling, they have managed to simultaneously accomplish . . . large scale training, defence research and exploration, production and pipelining for natural gas and heavy oil. In the face of all of this activity, the wildlife, vegetation, archaeology and sand dunes [on the Suffield Block] have been remarkably well preserved."

Source: *Formal report by the Department of the Environment, August, 1981.*



GAS & OIL

Major gas and oil drilling operations on the Suffield and Primrose military ranges continued during 1981. Gas production from Suffield and synthetic crude production from Syncrude were the Company's main sources of revenue in 1981.

AEC and the Department of National Defence maintained their successful coordination and co-existence of both gas and oil activities and military training in the Suffield and Primrose areas.

In addition to these on-going programs, during the last quarter of the year the Company took its first major step in an expanded oil and gas exploration program outside of the military ranges.

Suffield

Natural gas production on the Suffield Block in southeastern Alberta was up 26 percent from 1980, and averaged 4.5 million cubic metres (159 million cubic feet) per day.

At year end, AEC had invested $271.3 million on the Suffield Block. A total of 1,900 successful gas and oil wells had been drilled as at December 31, 1981, 208 of these drilled during 1981. A total of 1,681 wells are now integrated into a gas production system that includes 2 316 kilometres (1,438 miles) of gathering pipelines and 9 gas compressor stations.

During 1981, AEC began a deep drilling exploration program in Area E, a 29 600 hectare (73,100 acre) area in the west-central portion of the Suffield Block. Deep drilling in this instance refers to wells drilled to a depth below about 700 metres (2,300 feet). By year end, 24 wells had been drilled in this exploration program, 10 of which encountered deep gas, 1 oil, and 1 deep gas and oil.

Heavy oil production from the Suffield Block averaged 53 cubic metres (334 barrels) per day during 1981. Estimated heavy oil in place at Suffield is 48 million cubic metres (303 million barrels), of which only about one percent is estimated to be recoverable by conventional methods.

The Suffield Heavy Oil Pilot Project will evaluate the fire-flooding technique as a possible non-conventional method for the recovery of this substantial heavy oil. Drilling of wells and construction of related facilities have been completed, and the facilities are now undergoing testing.

Primrose

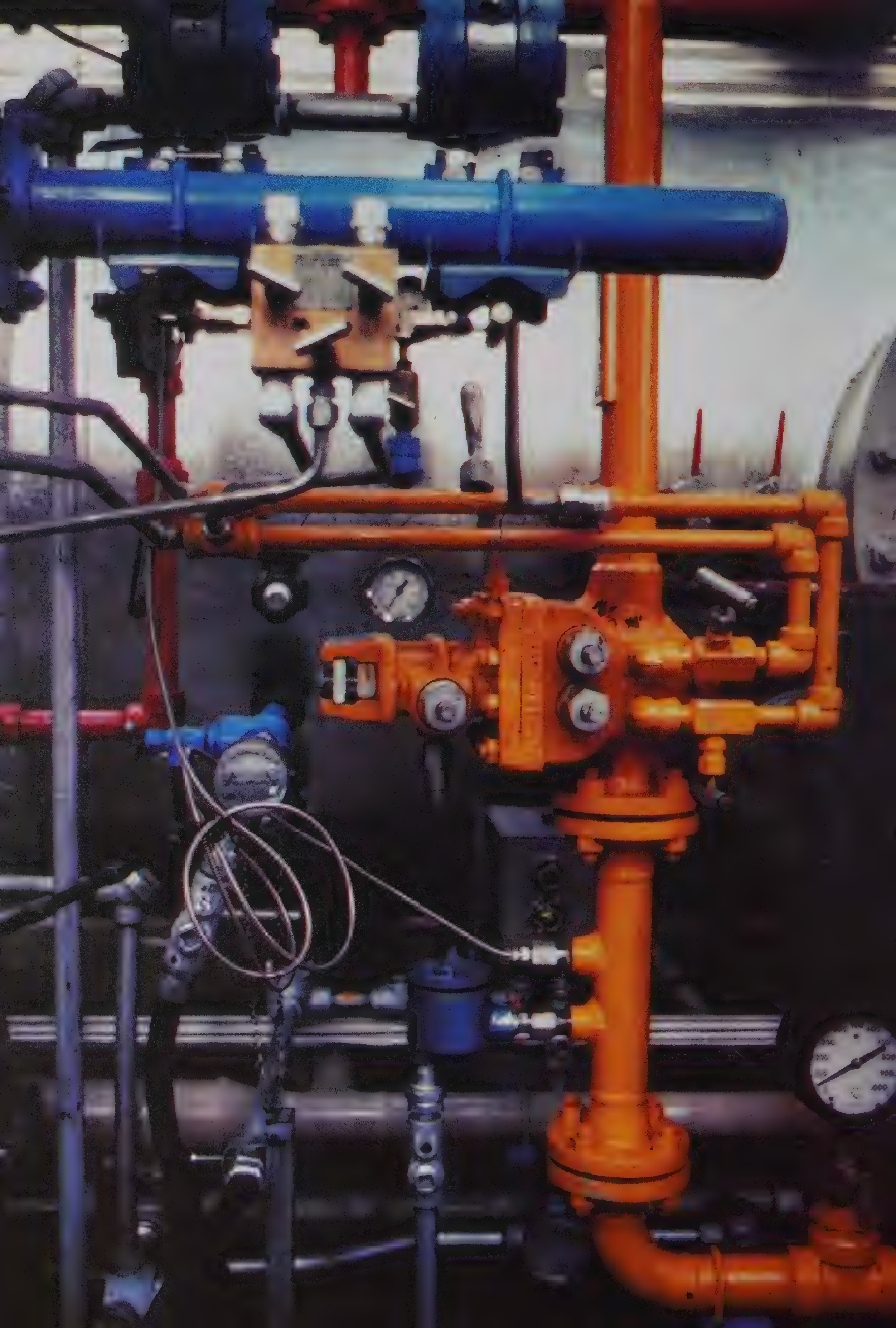
In 1978 AEC acquired the petroleum and natural gas rights to the Primrose Block of the Cold Lake Air Weapons Range.

By year-end 1981, 148 wells had been drilled under two farmout agreements in the Ipiatik Lake (northwest) region of the Block, of which 49 encountered gas, 21 oil sands, and 49 both gas and oil sands.

Under a third farmout arrangement completed in January 1981, another company undertook to conduct a seismic program and to drill 135 exploratory wells in the southeast portion of the Block. At year end, 46 wells had been drilled, of which 12 encountered gas, 11 oil sands, and 7 both gas and oil sands. In addition, the farmee will construct a heavy oil pilot project in the area, costing at least $20 million, which, if technically and economically viable, could lead to construction of a commercial recovery plant. This agreement also provides that AEC will, at its sole election, either receive a $20 million cash payment or other oil and gas exploration acreage having a value of $20 million.

1981 Statistical Summary — Gas and Oil

	Suffield	Primrose
Wells Drilled		
Gas	206	21
Oil	1	—
Oil Sands	—	19
Gas and Oil	1	—
Gas and Oil Sands	—	16
Wells on Production		
Gas	1,681	—
Oil	41	—
Average Daily Production		
Gas (Million Cubic Metres)	4.5	—
Oil (Cubic Metres)	53	—
Gathering Pipeline Laid (Kilometres)	306	—
Estimated AEC Heavy Oil in Place (Million Cubic Metres)	48	2,750
Estimated AEC Gas Reserves (Billion Cubic Metres)	42.8	1.9

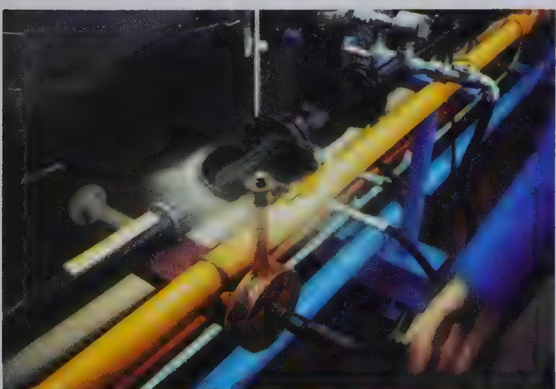


A small quantity of heavy oil is drawn off at the testing system sampling point.

The oil is transferred to a laboratory measuring container suitable for use with a centrifuge.

A solvent is employed to reduce the viscosity or heaviness of the oil.

A chemical which will enhance segregation of the oil and water then is added to the mixture.



The container is attached to the centrifuge which separates out substances of differing densities.

Finally, the water content in the sample is measured; in this case the oil is clean.

As illustrated in this series of photos, one of the routine field production testing systems at the Suffield heavy oil experimental project determines the quality of the produced oil.

Exploration Intentions

AEC has expanded its oil and gas exploration activities beyond the Suffield and Primrose Blocks. These programs, initially to be concentrated in the western Canadian sedimentary basin, may include farmins of lands owned by others, purchases of lease rights or the acquisition of existing operations.

AEC and a major Canadian resource company have agreed to a $133 million joint exploration program on western Canadian lands. The agreement covers 369 000 net hectares (912,000 net acres) of land in Alberta and British Columbia. AEC's contribution to the program, before allowances for incentives and grants of approximately $40 million, will be $100 million and AEC will earn an undivided 30 percent of the interest of the major Canadian resource company in the lands subject to the joint exploration program. It is anticipated that approximately 50 exploratory wells will be drilled over three years.

Exploration Acreage

Syncrude Project

The Syncrude Project at Fort McMurray, Alberta, produces synthetic crude oil by mining oil sands and extracting and upgrading bitumen.

Alberta Energy Company owns 10 percent of this project, as well as holding an average 7 percent gross overriding royalty on an additional 10 percent of plant production.

The current design capacity of the plant is 6.3 million cubic metres (39.8 million barrels) per year. Work is under way on plans for minor plant modifications, which are expected to increase production capacity to 7.5 million cubic metres (47.1 million barrels).

During 1981, Syncrude oil production totalled 4.7 million cubic metres (29.8 million barrels), of which AEC's share was 473.2 thousand cubic metres (3.0 million barrels). Mechanical failure which occurred at the end of 1980, and again in November and December of 1981, caused a loss in production. The 1981 plant production was 75 percent of capacity and represented approximately 5 percent of Canada's oil production.

During the year the Syncrude mining operation moved 66.9 million tonnes (73.7 million tons) of oil sands, which makes it one of the largest mining operations in the world.

AEC owns two-thirds of the AEC Power Ltd. Utilities Plant, which provides electric power, process water and steam to the entire Syncrude operation. The $262 million plant has a generating capacity of 260,000 kilowatts.

Considerable research effort has been devoted to the development of a steel alloy suitable for use in the teeth of the Syncrude dragline buckets. Oil sand is extremely abrasive, and replacement of the bucket teeth is part of the regular maintenance program.

PIPELINES

The Company's pipeline division continues to actively pursue expansion of its current operating pipelines, as well as investment opportunities in areas such as the transportation of refinery feedstocks, petrochemicals, and coal slurry.

Alberta Oil Sands Pipeline Ltd.

Alberta Oil Sands Pipeline Ltd. is a wholly-owned subsidiary of AEC which transports synthetic crude oil from the Syncrude project to pipelines and refineries in the Edmonton area.

A computerized control panel at the AOSPL control centre near Edmonton remotely controls pumping units and relays information such as meter readings, flow rates and pressures. Over 500 bits of information are relayed back every 20 seconds.

The 559-millimetre (22-inch) diameter, 432-kilometre (270-mile) pipeline was constructed during 1977 at a cost of $78.5 million, and began operations in May 1978. Since that time, the line has transported 12.8 million metres (80.3 million barrels) of crude.

During 1981, throughput averaged 12 963 cubic metres (81,579 barrels) per day, up slightly from 1980.

Existing capacity of AOSPL is 25 981 cubic metres (163,500 barrels) per day, which could be increased to 52 995 cubic metres (333,500 barrels) with the installation of additional pumping stations. Design studies are under way to provide a lateral extension of the system to connect with a new refinery in the Scotford area.

Two pipelines are laid side-by-side as part of the Cold Lake bitumen blend pipeline system.

Ethane Gathering System

The Ethane Gathering System is a vital link in Alberta's growing petrochemical industry, as it transports ethane produced at five extraction plants in Alberta to an ethylene manufacturing facility near Red Deer. Ethane also is transported via the System to Fort Saskatchewan where it is stored in underground caverns prior to shipment out of province.

The 880-kilometre (550-mile) pipeline system, in which AEC has a one-third interest, has a design capacity of 13 825 cubic metres (87,000 barrels) per day. 1981 average throughput was 12 378 cubic metres (80,163 barrels) per day, as compared to 11 973 cubic metres (75,348 barrels) per day in 1980.

Cold Lake Bitumen Pipeline

Construction of AEC's 235-kilometre (145-mile) bitumen blend pipeline system from an operational in-situ bitumen (heavy oil sands) recovery plant near Cold Lake, Alberta to Edmonton is nearing completion. The recovered bitumen will be combined with a diluent in order to permit the resulting blend to flow easily through the line.

The $65 million system is comprised of a 324-millimetre (12-inch) bitumen pipeline, a 168-millimetre (6-inch) diluent pipeline, a bitumen pump station at Leming and a diluent pump station at Edmonton.

Initial design capacity for the Cold Lake bitumen system will be 2 860 cubic metres (18,000 barrels) per day, which can be increased by installing additional pumping stations to 7 150 cubic metres (45,000 barrels) per day.

Start-up of the pipeline is anticipated during the second quarter of 1982.

COAL

AEC is a 25% joint venture participant in the Coal Valley Project located on 7 400 hectares (18,300 acres) of coal leases south of Edson, Alberta. The surface mine, preparation plant, and related facilities, were completed in 1978 and were designed to produce 2.3 million tonnes (2.5 million tons). An expansion to increase the mine's capacity to 3.3 million tonnes (3.6 million tons) is underway, and scheduled for 1984 completion. In 1982 the mine will be testing the feasibility of producing coal by underground mining.

Unit trains, which are the most efficient utilization of railway capacity in Canada, transport cleaned coal from the preparation plant west to Vancouver and east to the Great Lakes. A coal unit train consists of approximately 100 railway cars specifically designed for carrying coal, and each train has a capacity of about 9 000 tonnes (9,920 tons).

In 1981 the Coal Valley mine produced 2.7 million tonnes (3.0 million tons) of coal. AEC's share of 1981 production was 684 thousand tonnes (754 thousand tons). A major Canadian utility purchased 1.7 million tonnes (1.9 million tons) on a long-term contract basis, while the remaining coal was sold to purchasers in Japan and Europe. The expanded production will be purchased by the Japanese under medium to long-term contracts.

The high-quality, low-sulphur, thermal coal produced at Coal Valley is used to generate electricity in Canada, the Pacific Rim and Europe. As well, this coal is helping to diversify energy sources and reduce dependence on imported oils worldwide.

Statistical Summary — Coal Valley

	1981	1980
• *Project Production Capacity (Million Tonnes)*	*2.7*	*2.3*
• *Actual Production (Million Tonnes)*	*2.7*	*2.4*
• *AEC's Share of Production (Thousand Tonnes)*	*684*	*600*

Viewed in a counterclockwise direction starting at the bottom right, three progressive steps in the coal mining process are illustrated.

A 10-cubic metre electric walking dragline, which is used primarily for coal removal, is shown stripping off waste material (over-burden) which overlays the coal seam.

A backhoe and a 75-tonne truck are utilized to remove additional waste materials, such as sandstone and clay, which are located between two coal seams. Waste removal at this stage, rather than later in the coal preparation plant, increases plant efficiency.

In the right foreground of the aerial view of the Coal Valley site, the unit train is being loaded with clean coal prior to shipment. Each rail car holds 90 tonnes of coal.

PETROCHEMICALS

The Ethane Gathering System is a vital link in Alberta's developing petrochemicals industry, as it transports ethane which is used to produce ethylene, a basic petrochemical feedstock.

Petrochemicals Alberta Project (Petalta)

AEC is continuing to pursue plans to construct, concurrently, world-scale benzene and styrene plants northeast of Edmonton, Alberta. Regulatory approvals have been obtained, and site preparation began in August 1981. Subsequent to year end, AEC's co-venturer withdrew from the project. Action has been initiated to acquire a new partner or partners, but at the time of report preparation, there is no certainty as to how or when this will be accomplished.

The $350 million benzene plant would have an annual design capacity of 370 000 tonnes (110 million U.S. gallons). The design capacity of the $300 million styrene plant would be 400 000 tonnes (441,000 tons) per year.

Benzene is used in the manufacture of paints, varnishes, adhesives and other products, while styrene is utilized in the production of plastics and rubber items.

Other Petrochemical Projects

AEC, co-venturing with a major polyethylene producer, has received ERCB approval of a $200 million, 225 000 tonne (500 million pound) per year polyethylene plant. Feedstock supplies are being negotiated. Polyethylene is used in the production of items such as paper coating, toys, refuse bags, and electrical insulation.

In 1981 the Company and two joint venture participants applied to the ERCB for an industrial development permit to construct a 700 000 tonne (1.5 billion pound) per year ethylene plant. Ethylene is a basic petrochemical feedstock for use in the production of other petrochemicals such as styrene and polyethylene.

FORESTRY

During 1981 AEC acquired, for $217 million, 28 percent of British Columbia Forest Products. BCFP, with net assets of $1.1 billion, is one of Canada's largest integrated forest products companies. Combined sales of lumber, plywood, market pulp, newsprint, coated paper, and other wood products were $815 million in 1981.

AEC also purchased, at a cost of $24 million, Simpson Timber of Canada Ltd. Through this acquisition, the Company increased to 100% its ownership in the lumber mill and associated timber resources in the area of Blue Ridge, Alberta. The plant, with an annual design capacity of 110 million board feet, produced 114 million board feet of lumber during 1981.

High interest rates experienced during 1981 had a significant negative impact on the demand for dimensional lumber and the profitability of the forest products area. These circumstances continue to prevail in early 1982, and accurate prediction of the turnaround in these general economic conditions is not possible at this time.

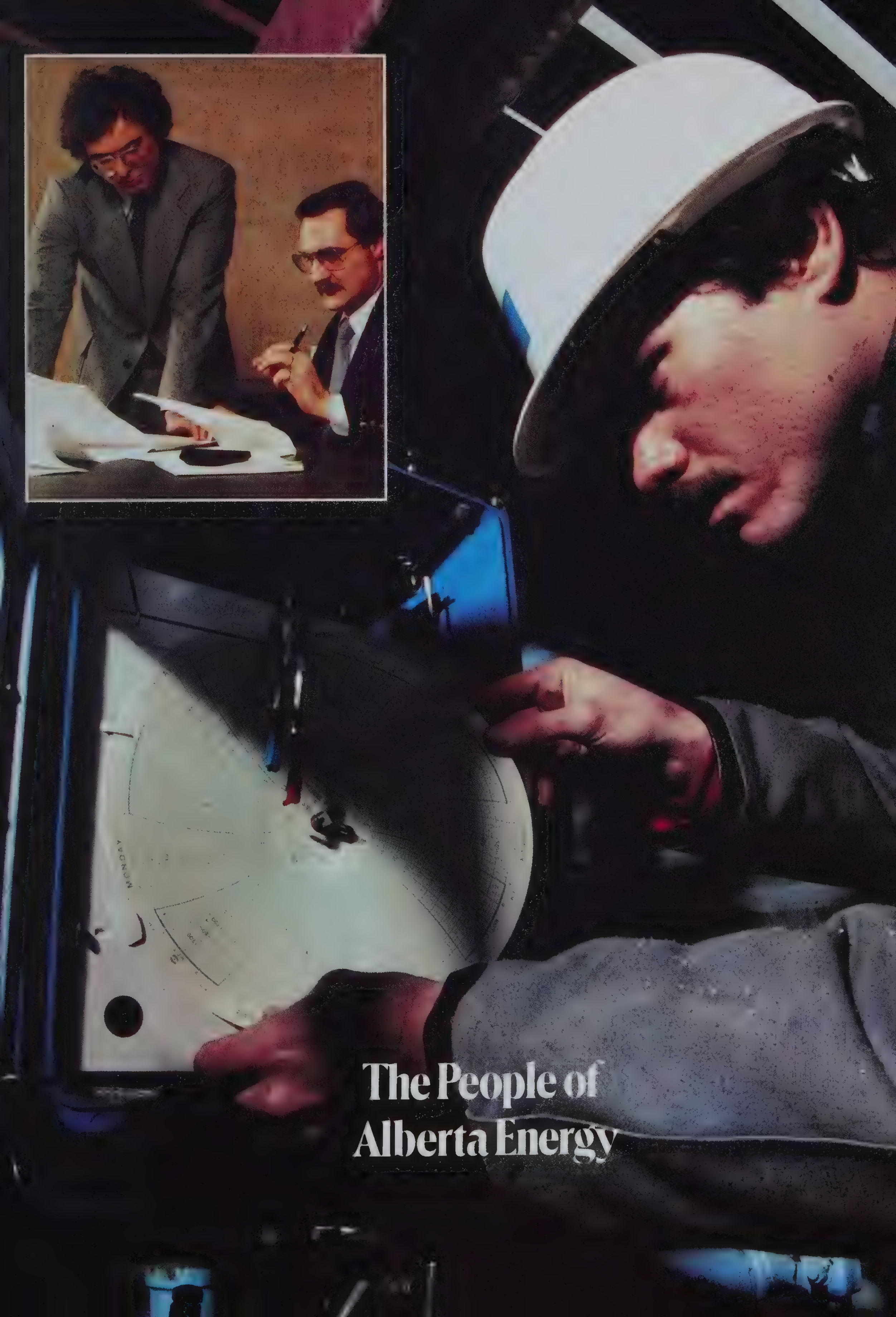
OTHER ACTIVITIES

Pan-Alberta Gas Ltd., in which AEC owns a 50% interest, contracts for the purchase of natural gas throughout Alberta and for the sale of gas to purchasers primarily outside Alberta. During 1981 total revenues amounted to $243 million, an increase of 20 percent over 1980. Sales of 1.8 billion cubic metres (62.2 billion cubic feet) were comparable to the previous year. Net earnings were $1.2 million.

Zimpro-AEC Ltd., owned 50% by AEC, is marketing a wet air oxidation process for the production of steam and carbon dioxide. The process has potential use for the recovery of heavy and light oils and for the treatment of tailings from oil sands extraction plants.

Steel Alberta Ltd., owned 50% by AEC, holds 20.2% of the shares of Interprovincial Steel and Pipe Corporation Ltd., a company which manufactures steel products such as pipe, casing and structural tubing. The net income of IPSCO totalled $26 million in 1981.

AEC has been participating in four uranium exploration joint ventures in the Northwest Territories, which cover 4 773 million square kilometres (1,843 square miles). The expenditure on this program has been very limited, and reflects uncertainty about uranium markets.



The People of Alberta Energy

Financial Review

Revenues, net of Alberta Crown Royalties, were $285.1 million, an increase of $52.5 million from the 1980 level of $232.6 million. The major contributors to the increased revenues were gas, synthetic crude oil and coal.

Net earnings before an extraordinary item were $42.4 million or $0.93 per share, a decrease of $15.0 million or $0.33 per share from the 1980 net earnings of $57.4 million or $1.26 per share. An extraordinary write-off in 1981 reduced the Company's net earnings to $29.7 million or $0.65 per share. This write-off, net of income taxes, amounted to $12.7 million and consists of the Company's investment in the Petalta Project and a provision for anticipated 1982 costs should the project not proceed.

Cash flow from operations was $92.3 million or $2.03 per share compared to $115.6 million or $2.54 per share for 1980. This reduction was primarily caused by higher interest expense and Petroleum and Gas Revenue Tax which more than offset areas of gain.

Operating expenses of $126.1 million reflect the higher level of activity as well as the continuing impact of inflation on costs of material, supplies and wages.

Significantly higher interest rates experienced during the year, coupled with the larger borrowings required to assist in financing capital expenditures and investments, resulted in net interest expense increasing to $45.1 million from $17.4 million in 1980.

General and administrative expenses of $10.9 million reflects the costs required to support the Company's steadily increasing activities. Similarly, depreciation and depletion reflect the increased production levels of all segments of the Company's operation.

During the year the Company obtained a favourable income tax ruling which allowed the Company to reduce the 1981 estimated provision for income taxes by $10.2 million. This reduction reflects on the effective rate.

The imposition in 1981 of the Petroleum and Gas Revenue Tax by the Federal Government had a significant negative impact on the net earnings of the Company. This tax is levied on the net production proceeds from both conventional gas and oil and synthetic crude oil. Consequently, the Company incurred an additional expense of $15.6 million, which is not deductible in computing income taxes.

Capital expenditures for property, plant and equipment totalled $132.6 million which includes $35.9 million for the continuing development of the Suffield block, $38.9 million on the construction of the Cold Lake Bitumen Pipeline and $22.1 million for the additional investment in the Whitecourt Forestry Complex. These expenditure levels are net of the $6.1 million the Company will be claiming as a grant under the Petroleum Incentives Program.

In June 1981, the Company acquired a 28% interest in British Columbia Forest Products Limited at a total cost of $217.3 million.

During the year the Company negotiated a further $350 million in revolving credit facilities in addition to the $300 million revolving credit facility available at the beginning of the year. Working capital as of December 31, 1981 was $1.5 million. With the availability of these existing revolving credit facilities, the Company has ready access to additional working capital as required.

The Company paid a dividend of $0.20 per share compared to $0.15 per share for 1980.

Alberta Energy Company Ltd.

Summary of Accounting Policies

Principles of consolidation

The consolidated financial statements include the accounts of Alberta Energy Company Ltd. (the Company) and its wholly-owned subsidiary companies.

The Company's proportionate share of revenues, expenses, assets and liabilities in unincorporated joint ventures are consolidated in the Company's accounts.

A listing of subsidiaries and unincorporated joint ventures is shown on page 33.

Investments in affiliated companies

The Company has adopted the equity method of accounting for investments in affiliated companies which are detailed in Note 3.

Property, plant and equipment

Gas and oil

Conventional

The Company follows the full cost method of accounting for gas and oil properties. All costs related to conventional petroleum and natural gas leases situated in Western Canada are accumulated in one cost centre and amortized on a composite unit-of-production method based upon estimated proven developed reserves.

Oil sands

Property, plant and equipment, including pre-production costs, associated with the Syncrude Project are accumulated in a separate cost centre and amortized using the unit-of-production method based on estimated recoverable reserves. Anticipated major maintenance expenditures of an ongoing nature are provided for on the unit-of-production basis.

Pipelines

Property, plant and equipment is carried at cost with depreciation calculated using the straight-line method based on the estimated service life of the asset.

Other

Property, plant and equipment is carried at cost and is depreciated or amortized over the useful life of the assets using either the straight-line method or unit-of-production method whichever is deemed appropriate.

Other assets and deferred charges

Deferred stripping costs

Costs of stripping related to producing areas of the coal mine are amortized on the basis of estimated production.

Project investigation costs

All project investigation costs on new business opportunities are charged to earnings as incurred until such time as the commercial viability of the project or business is indicated. All subsequent expenditures will be capitalized and charged against earnings using the method deemed appropriate for that particular business or project.

Mineral exploration and development

Acquisition costs of undeveloped mineral resource properties are capitalized and amortized over the exploration period or until sufficient reserves are established, at which time the unamortized costs will be charged against earnings using the unit-of-production method.

Mineral exploration expenditures are charged to earnings as incurred until such time as the presence of economically recoverable reserves are established. Subsequent expenditures are capitalized on a project basis and amortized using the unit-of-production method once commercial production commences.

Financing costs

Financing costs are amortized over the life of the related debt.

Foreign exchange on long-term debt

The Company follows the current/non-current method of accounting for foreign exchange on long-term debt. The non-current portion of the debt is carried at the exchange rate in effect at the date of issue whereas the current portion of the debt is recorded at the period end exchange rate with any resulting gains or losses reflected in the statement of earnings.

Alberta Energy Company Ltd.

Consolidated Statement of Earnings

($ millions)

	Note Reference	Year Ended December 31 1981	1980
Revenues, Net of Royalties		**$285.1**	$232.6
Equity in Earnings (Losses) of Affiliates		**(.8)**	4.8
		284.3	237.4
Costs and Expenses			
Operating		**126.1**	99.7
Interest — net	10(a)	**45.1**	17.4
General and administrative		**10.9**	8.4
Depreciation, depletion and amortization		**28.8**	23.4
		210.9	148.9
Earnings before Income and Revenue Taxes		**73.4**	88.5
Income taxes	8	**15.4**	31.1
Petroleum and Gas Revenue Tax		**15.6**	—
		31.0	31.1
Net Earnings before Extraordinary Item		**42.4**	57.4
Extraordinary Item after Income Taxes	13	**12.7**	—
Net Earnings		**$ 29.7**	$ 57.4
Earnings Per Share			
Before extraordinary item		**$ 0.93**	$ 1.26
After extraordinary item		**$ 0.65**	$ 1.26

Consolidated Statement of Retained Earnings

($ millions)

	1981	1980
Balance — Beginning of Year	**$119.4**	$ 68.8
Net Earnings	**29.7**	57.4
	149.1	126.2
Dividend	**9.1**	6.8
Balance — End of Year	**$140.0**	$119.4

The summary of accounting policies and notes to the financial statements are part of this statement.

Alberta Energy Company Ltd.

Consolidated Balance Sheet

($ millions)

	Note Reference	Year Ended December 31 1981	1980
ASSETS			
Current Assets			
Cash and short-term investments at cost which approximates market		$ 32.0	$ 19.4
Accounts receivable and accrued revenue		34.9	28.4
Inventories	2	16.0	10.6
Prepaid expenses		3.7	3.7
		86.6	62.1
Investment in Affiliated Companies	3	247.3	37.0
Property, Plant and Equipment	4	694.0	593.0
Other Assets and Deferred Charges	5	9.0	10.6
		$1,036.9	$702.7
LIABILITIES			
Current Liabilities			
Acccounts payable and accrued liabilities		$ 68.8	$ 49.9
Income and revenue taxes payable		10.3	.5
Current portion of long-term debt		6.0	1.6
		85.1	52.0
Deferred Revenue		18.7	15.3
Long-Term Debt	6	518.1	251.8
Deferred Liabilities	7	45.9	45.9
Deferred Income Taxes		79.4	69.2
		747.2	434.2
SHAREHOLDERS' EQUITY			
Share Capital	9		
Authorized — 300,000,000 shares without par value.			
Issued and fully paid — 45,491,255 (1980 — 45,460,505)		149.7	149.1
Retained earnings		140.0	119.4
		289.7	268.5
		$1,036.9	$702.7

Approved by the Board:

Director

Director

The summary of accounting policies and notes to the financial statements are part of this statement.

Alberta Energy Company Ltd.

Consolidated Statement of Changes in Financial Position

($ millions)

	Note Reference	Year Ended December 31 1981	1980
Source of Funds			
Net earnings before extraordinary item		**$ 42.4**	$ 57.4
Depreciation, depletion and amortization		**29.0**	23.6
Deferred income taxes		**14.2**	31.6
Other		**6.7**	3.0
Cash flow from operations		**92.3**	115.6
Deferred revenue		**3.4**	9.0
Issue of share capital	9	**.6**	.3
Issue of long-term debt		**273.4**	14.9
		369.7	139.8
Use of Funds			
Investment in property, plant and equipment			
Gas and oil	12(a)	**54.1**	75.5
Pipelines		**40.8**	2.0
Other		**37.7**	9.2
		132.6	86.7
Current portion of long-term debt and deferred liabilities		**4.4**	6.2
Investment in affiliates		**213.9**	—
Repayment of long-term debt		**2.8**	71.1
Extraordinary item	13	**14.7**	—
Other assets and deferred charges		**.8**	3.2
Dividend		**9.1**	6.8
		378.3	174.0
Decrease in Working Capital		**(8.6)**	(34.2)
Working Capital — Beginning of Year		**10.1**	44.3
Working Capital — End of Year		**$ 1.5**	$ 10.1

The summary of accounting policies and notes to the financial statements are part of this statement.

Notes to Consolidated Financial Statements

1. Segmented information

($ millions)	Gas and Oil 1981	Gas and Oil 1980	Pipelines 1981	Pipelines 1980	Other 1981	Other 1980	Total 1981	Total 1980
Gross Revenue	$277.3	$227.9	$ 24.7	$ 22.7	$39.1	$25.5	$ 341.1	$276.1
Royalties	55.1	43.1	—	—	.9	.4	56.0	43.5
Revenues, Net of Royalties	222.2	184.8	24.7	22.7	38.2	25.1	285.1	232.6
Operating Expenses	82.2	67.9	5.8	4.4	34.7	22.1	122.7	94.4
Depreciation, Depletion and Amortization	19.8	16.0	4.0	3.7	4.2	3.1	28.0	22.8
Petroleum and Gas Revenue Tax	15.6	—	—	—	—	—	15.6	—
	117.6	83.9	9.8	8.1	38.9	25.2	166.3	117.2
Segmented Operating Income (Loss)	$104.6	$100.9	$ 14.9	$14.6	$ (.7)	$ (.1)	118.8	115.4
Equity in Earnings (Losses) of Affiliates							(.8)	4.8
Corporate Expenses							(15.1)	(14.3)
Interest — Net							(45.1)	(17.4)
Income Taxes							(15.4)	(31.1)
Net Earnings Before Extraordinary Item							$ 42.4	$ 57.4
Identifiable Assets	$524.2	$484.4	$102.0	$100.1	$76.6	$51.1	$ 702.8	$635.6
Projects Under Development							39.5	.6
Corporate Assets							47.3	29.5
Investment in Affiliates							247.3	37.0
Total Assets							$1,036.9	$702.7
Capital Expenditures	$ 54.1	$ 75.5	$ 1.8	$ 1.4	$26.1	$ 5.2	$ 82.0	$ 82.1

2. Inventories

Inventories are valued at the lower of cost or estimated net realizable value. They consist of:

($ millions)	1981	1980
Raw materials and supplies	$10.7	$ 7.2
Work-in-process	2.4	1.2
Finished goods	2.9	2.2
	$16.0	$10.6

3. Investments in affiliated companies, at equity

($ millions)	Common Shares	Unsecured Advances	Equity in Undistributed Earnings (Losses) since Acquisition	1981 Total	1980 Total
BC Forest Products	$213.9	$—	$ (6.2)	$207.7	$ —
AEC Power	16.0	—	4.7	20.7	20.7
Steel Alberta	—	5.7	9.1	14.8	12.8
Pan-Alberta Gas	1.0	—	3.1	4.1	3.5
	$230.9	$ 5.7	$10.7	$247.3	$37.0

(a) British Columbia Forest Products Limited (BC Forest Products)

The Company acquired a 28% interest in BC Forest Products during June 1981, at a cost of $217.3 million which has been reduced by dividends of $3.4 million. The cost exceeded the underlying net book value of the assets by $111.3 million, which amount has been ascribed to productive assets and is being amortized on a straight-line basis over 20 years.

(b) AEC Power Ltd.

The Company holds a 66⅔% equity interest which carries a 50% voting interest.

(c) Steel Alberta Ltd.

The Company holds a 50% equity and voting interest in Steel Alberta Ltd. which owns 20.2% of Interprovincial Steel and Pipe Corporation Ltd. and accounts for this investment on the equity method.

(d) Pan-Alberta Gas Ltd.

The Company holds a 50% equity interest which carries a 40% voting interest.

4. Property, plant and equipment

	1981			1980
($ millions)	**Cost**	**Accumulated depreciation depletion and amortization**	**Net**	Net
Gas and oil	**$538.3**	**$51.2**	**$487.1**	$454.5
Pipelines	**140.9**	**13.6**	**127.3**	90.8
Other	**98.7**	**19.1**	**79.6**	47.7
	$777.9	**$83.9**	**$694.0**	$593.0

(a) Gas and oil

Prior to March 1, 1980 the Company's share of Syncrude operating costs, net of revenues, plus interest on cash invested was capitalized.

(b) Other

During June 1981, the Company increased its ownership in the Whitecourt Forest Management Area and associated lumber manufacturing plant near Blue Ridge to 100% by acquiring all of the outstanding shares of Simpson Timber Company of Canada Ltd. The total consideration of this acquisition was $24.5 million which exceeded the net book value by $4.5 million. This excess consideration has been ascribed to productive assets and is being amortized on a straight-line basis over 20 years.

5. Other assets and deferred charges

($ millions)	**1981**	1980
Deferred stripping costs	**$1.9**	$ 1.4
Deposits	**.6**	.5
Land held for future development	**.6**	.6
Loans under Share Purchase Plans	**1.9**	2.0
Project investigation costs	**.7**	3.0
Mineral properties	**2.1**	1.9
Unamortized financing costs	**1.2**	1.2
	$9.0	$10.6

6. Long-term debt

($ millions)	1981	1980
AEC		
Income debentures and term loans	**$364.9**	$189.0
Notes payable	**41.4**	4.8
Unsecured trust company loan	**50.0**	—
Mortgage payable	**10.0**	—
	466.3	193.8
AOSPL		
First Mortgage Sinking Fund Bonds:		
Series A — 9⅝%, due June 15, 1997	**23.3**	24.8
Series B — 9¾%, due June 15, 1997	**27.2**	28.7
	50.5	53.5
Other	**7.3**	6.1
	524.1	253.4
Current portion of long-term debt	**6.0**	1.6
	$518.1	$251.8

(a) Income debentures and term loans

During 1978, the Company negotiated a revolving credit facility with two chartered banks providing for up to $300.0 million to be drawn in the form of income debentures or term loans. In May, 1981 the Company negotiated a further revolving credit facility with these chartered banks providing for up to $300.0 million to be drawn in the form of term loans.

Both of these credit facilities are secured by a portion of the reserves of the Suffield Block, a fixed charge on the related production equipment and an assignment of the related gas sales contracts. The term loans may be drawn down in Canadian and/or U.S. dollars and/or by way of Canadian dollar Bankers' Acceptances.

The debt is repayable in full over a period of ten years commencing not later than December 31, 1988. The interest rate on income debentures is approximately one-half of the sum of the lenders' prime commercial lending rate and a factor which varies over the term of the debentures from ⅜% to 1⅜%. The interest rate on term loans is the lenders' prime commercial lending rate plus a factor varying over the term of the loans up to 1%. Interest paid on income debentures is not deductible for income tax purposes.

As at December 31, 1981 income debentures totalling $180.0 million (1980 — $180.0 million) and term loans totalling $184.9 million (1980 — $9.0 million) were outstanding.

(b) Notes payable

Notes payable of $41.4 million (1980 — $4.8 million) consist of $25.8 million (1980 — nil) in commercial paper and $15.6 million (1980 — $4.8 million) in Bankers' Acceptances, all maturing at various dates up to November 1982 with a weighted average interest rate of 16.47% (1980 — 12.87%). Notes payable are shown as long term debt because they are supported by the availability of term loans under the revolving credit facilities.

(c) Unsecured trust company loan

In January 1981, the Company entered into a credit facility with a major Canadian trust company under which up to $50.0 million could be drawn down on a revolving basis until January 30, 1991, after which any outstanding debt is repayable in full over a further ten year period. The credit arrangement is unsecured and the interest rate varies from the prime commercial lending (prime) rate of a major Canadian chartered bank less ¾% to prime less ¼%.

(d) AOSPL First Mortgage Sinking Fund Bonds

The Series A and B Bonds are secured by a fixed charge upon AOSPL's fixed assets and a floating charge on all its other assets. Outstanding debt related to the AOSPL pipeline is guaranteed by the Syncrude participants in the event of abandonment of the Syncrude Project. As a participant in the Syncrude Project, the Company is responsible for 10% of the guarantee. AOSPL has an obligation to retire in each year 4½% (being $2.8 million annually) of the total bond issue of $61.5 million. To date AOSPL has made early purchases of bonds totalling $1.4 million which will be applied against 1982 sinking fund requirements.

7. Deferred liabilities

(a) Suffield

Rights to the Suffield Block were acquired for $54.0 million of which $24.0 million has been paid and the balance is payable in three annual installments of $10.0 million commencing one year after recovery of certain expenditures.

(b) Primrose

The Company acquired rights to the Primrose Range for $57.6 million which includes $32.0 million in work obligations. The Company has paid $9.7 million for leases obtained to December 31, 1981 and $15.9 million is payable when leases to the remaining portions of the Range are requested. Work on that part of the Range currently leased is being conducted by other parties under farmout arrangements.

8. Income taxes

($ millions)	1981	1980
Current	$ 2.5	$ .5
Deferred	14.2	31.6
Alberta Royalty Tax Credit	(1.3)	(1.0)
	$15.4	$31.1

9. Share capital

($ millions)	1981		1980	
	Number of Shares	Net Proceeds	Number of Shares	Net Proceeds
Issued for cash	37,500	$ .7	14,000	$ .3
Redeemed for cancellation	6,750	.1	—	—
Net increase in the year	30,750	.6	14,000	.3
Share capital — beginning of year	45,460,505	149.1	45,446,505	148.8
Share capital — end of year	45,491,255	$149.7	45,460,505	$149.1

(a) Common shares

During 1980, each common share of the Company was subdivided into three shares. This increased the authorized number of common shares to 300 million shares and the issued and outstanding to 45.5 million shares. All references to numbers of shares and per share calculations reflect this stock split.

(b) Share purchase plan

At December 31, 1981, 100,108 shares (1980 — 137,608) are reserved for issuance under the Share Purchase Plan.

(c) Alberta Energy Company Act

Pursuant to The Alberta Energy Company Act only citizens or residents of Canada are eligible to purchase, own or hold voting shares in the Company. In addition, the maximum ownership of any one shareholder, excluding the Province of Alberta, is limited to 1% of the total number of issued and outstanding voting shares of the Company.

(d) Authorized capital

Subsequent to December 31, 1981, at a special general meeting of shareholders held on January 26, 1982, approval was granted to increase the authorized capital of the Company by creating 20,000,000 First Preferred Shares having a par value of $25 each and 20,000,000 Second Preferred Shares having a par value of $25 each.

10. Supplementary information

(a) Interest — net

($millions)	1981	1980
Interest expense	$53.8	$23.9
Interest income	(7.4)	(3.9)
Capitalized interest	(1.3)	(2.6)
	$45.1	$17.4

(b) Joint ventures

The Company has included in its accounts the following aggregate amounts in respect of those unincorporated joint ventures outlined on page 33.

($millions)	1981	1980
Assets	$299.6	$302.8
Liabilities	29.7	32.5
Gross operating revenue	151.1	149.0
Expenses	108.1	106.3

11. Remuneration of directors and senior officers

The aggregate direct remuneration paid by the Company and its subsidiaries to its directors was $151,000 (1980 — $124,000) and to its senior officers as officers was $1,286,000 (1980, for fewer officers — $773,000).

12. Commitments and contingencies

(a) Petroleum Incentives Program

The Company has reduced the cost of property, plant and equipment by $6.1 million as at December 31, 1981, as a result of grants claimed under the Petroleum Incentives Program announced by the Governments of Canada and Alberta. Although the legislation to enact this program has been passed, the supporting regulations establishing the details of the program have not been issued.

(b) Farmin agreement

The Company is finalizing a farmin agreement, which will be effective as of September 1, 1981, whereby it will participate in a $133 million joint exploration program on lands in the provinces of Alberta and British Columbia. The Company's contribution to the program, before allowances for incentives and grants of up to $40 million, will be $100 million to earn an undivided 30 percent of the interest held by a major Canadian resource company in these lands. As of December 31, 1981 the Company has recorded $2.6 million in respect of this commitment.

13. Extraordinary item

During January, 1982 Imperial Oil Ltd., operating as Esso Chemical Canada, withdrew from the Petalta Project. While every effort is being made to continue this venture with a new co-venturer(s), the Company has written off its share of costs to December 31, 1981 and made a provision of $4.2 million for potential winddown expenditures, including costs incurred subsequent to year end. The total write-off is presented as an extraordinary item in the statement of earnings in the amount of $12.7 million which is net of $4.1 million in income taxes.

Auditor's Report

To the Shareholders of Alberta Energy Company Ltd.

We have examined the consolidated balance sheet of Alberta Energy Company Ltd. as at December 31, 1981 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1981 and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse

Chartered Accountants
Edmonton, Alberta
February 1, 1982

Five-Year Review

(all dollar amounts, except per share amounts, are in millions)

	1981	1980	1979	1978	1977
FINANCIAL					
Revenue (net of royalties)	**$285.1**	$232.6	$ 90.9	$ 54.8	$ 20.3
Net earnings	**29.7**	57.4	27.4	18.8	14.9
Cash flow	**92.3**	115.6	60.8	32.5	17.1
Working capital	**1.5**	10.1	44.3	141.0	15.5
Investment in property, plant and equipment	**694.0**	593.0	531.9	290.8	206.6
Long-term debt	**518.1**	251.8	309.6	209.2	44.6
Total assets	**1,036.9**	702.7	651.0	504.1	273.3
PER SHARE DATA*					
Net earnings	**$ 0.65**	$ 1.26	$ 0.60	$ 0.41	$ 0.33
Cash flow	**2.03**	2.54	1.34	0.72	0.38
Shareholders' equity	**6.37**	5.90	4.80	4.27	3.85
Dividend	**0.20**	0.15	0.10	—	—
SHARE DATA*					
Number of shareholders	**52,841**	54,252	51,725	53,292	54,169
Common shares outstanding	**45,491,255**	45,460,505	45,446,505	45,335,553	45,272,928
Volume of shares traded	**4,788,371**	9,706,332	8,530,752	5,543,070	5,386,023
Share price range — High	**$27.75**	$24.38	$14.42	$ 6.58	$ 6.42
— Low	**14.00**	12.50	6.21	4.88	3.92
— Close	**16.00**	23.88	13.50	6.29	5.88
GAS AND OIL					
Successful wells drilled	**264**	485	307	397	301
Petroleum and natural gas rights, thousands of					
— hectares	**764.7**	764.7	764.7	764.7	248.7
— acres	**1,889.8**	1,889.8	1,889.8	1,889.8	614.6
Revenue from gas and oil (net of royalties)	**$222.2**	$184.8	$ 48.8	$ 28.2	$ 15.0
Gas and oil royalties paid	**$ 55.1**	$ 43.1	$ 18.3	$ 13.6	$ 7.6

*Reflects the three-for-one stock split.

BOARD OF DIRECTORS

MATHEW M. BALDWIN
Company Director
Edmonton, Alberta

EDWARD A. GALVIN
President
Poco Petroleums Ltd.
Calgary, Alberta

DONALD S. MACDONALD
Partner, McCarthy & McCarthy
Barristers and Solicitors
Toronto, Ontario

PETER L. P. MACDONNELL, Q.C.
Partner, Milner & Steer
Barristers and Solicitors
Edmonton, Alberta

JOHN E. MAYBIN
Company Director
Edmonton, Alberta

STANLEY A. MILNER
President
Chieftain Development Co. Ltd.
Edmonton, Alberta

DAVID E. MITCHELL
President & Chief Executive Officer
Alberta Energy Company Ltd.
Calgary, Alberta

RAYMOND J. NELSON
President
Nelson Lumber Company Ltd.
Lloydminster, Alberta

GORDON H. SISSONS
President
I-XL Industries Ltd.
Medicine Hat, Alberta

J. HARRY TIMS
President & General Manager
McTavish McKay & Co. Limited
Calgary, Alberta

OFFICERS AND SENIOR PERSONNEL

NICHOLAS J. LASHUK
Executive Vice-President

FLOYD D. AARING
Vice-President

EDWARD J. MARTIN
Comptroller

JACK G. ARMSTRONG
Senior Vice-President, Finance

ROGER D. DUNN
Vice-President

HECTOR J. McFADYEN
Vice-President

FRANK W. PROTO
Senior Vice-President

JACK E. ELLEFSON
Vice-President, Alberta Oil Sands Pipeline

GWYN MORGAN
Vice-President, Gas and Oil

WAYNE G. HOLT
General Counsel

DEREK S. BWINT
Director, Financial Evaluations

ARLENE J. MOORE
Corporate Secretary

ROGER N. GIMBY
Director, Gas and Oil Operations

SYDNEY R. CHEN-SEE
Assistant Corporate Secretary

KEITH O. FOWLER
Director, Corporate Taxation

JOHN D. WATSON
Treasurer

LAWRENCE J. HICKEY
Assistant Comptroller

STEVE E. BALOG
Manager, Petroleum Engineering

JOHN F. BOESSENKOOL
Manager, Accounting

LAURIER E. BOURASSA
Manager, Administration

RAYMOND J. GESSLER
Manager, Computer Services

BARRY D. GILCHRIST
Manager, Legal Services

THOMAS R. KENNEDY
Manager, Forestry Development

RUDY A. KRUEGER
Manager, Personnel

DONALD C. MACLEOD
Manager, Aviation

MICHAEL SALTER
Manager, Special Projects and Systems

ROBERT A. TOWLER
Manager, Petrochemicals

CORPORATE INFORMATION

Calgary Office
#2400
639 - 5th Avenue S.W.
Calgary, Alberta
T2P 0M9

Registered Head Office
#1200
10707 - 100 Avenue
Edmonton, Alberta
T5J 3M1

Registrar
National Trust Company, Limited
Edmonton, Alberta

Transfer Agents
National Trust Company, Limited
Edmonton, Calgary, Vancouver,
Winnipeg, Toronto, Montreal;
and its agent, Canada Permanent Trust
Company in Regina

Stock Exchange Listings
Alberta Stock Exchange
Montreal Stock Exchange
Toronto Stock Exchange
Vancouver Stock Exchange

Auditors
Price Waterhouse
Chartered Accountants
Edmonton, Alberta

Wholly-Owned Subsidiaries
Alberta Oil Sands Pipeline Ltd.
AEC Heavy Oil Ltd.
AEC Coal Company Ltd.
Alberta Industrial Gas Suppliers, Ltd.
Alenco Holdings, Inc.
Blue Ridge Lumber (1981) Ltd.

Affiliates
AEC Power Ltd. — $66^2/_3$%
Pan-Alberta Gas Ltd. — 50%
Steel Alberta Ltd. — 50%
Zimpro-AEC Ltd. — 50%
British Columbia Forest
Products Limited — 28%

Major Joint Ventures
Ethane Gathering System — $33^1/_3$%
Coal Valley Project — 25%
Syncrude Project — 10%

Alberta Energy Company Ltd.

Annual Report 1981

Printed in Alberta

Coal

Coal sales from the Coal Valley mine totalled 1.4 million tonnes (1.6 million tons) at mid-year, which reflects a 37 percent increase over the first six months of 1980. AEC's share of production was 346.9 thousand tonnes (382.3 thousand tons) of coal.

Petrochemicals

AEC and a joint venture participant have received ERCB and Cabinet approval to proceed with a world-scale ethylbenzene/styrene plant. Construction of the plant, with a capacity of 400 kilotonnes (882 million pounds) per year, is expected to begin later this year with anticipated completion in 1984.

Forestry

The Company acquired, for $215 million, shares representing 28 percent of British Columbia Forest Products Limited, one of Canada's largest integrated forest products companies.

AEC also purchased Simpson Timber Co. of Canada Ltd. at a cost of approximately $24 million. Through this acquisition, the Company increased to 100 percent its ownership of the Whitecourt Forest Management Area and the associated lumber manufacturing plant in west-central Alberta.

Both of these acquisitions were financed from the proceeds of a $300 million credit facility finalized during the quarter.

Pipelines

Construction of a $65 million, 235-kilometre (145-mile) combination diluent and bitumen pipeline will begin in mid-August. The system, with an initial capacity of 2,862 cubic metres (18,000 barrels) per day, will transport bitumen blended with diluent from the Cold Lake pilot plant to an Edmonton refinery. Start-up of the pipeline is planned for the first quarter of 1982.

David E. Mitchell
President

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Edmonton, Alberta T5J 3M1

PRINTED IN CANADA

Alberta Energy

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Alberta Energy Company Ltd.

Interim Report

For the six months ended June 30, 1981

Report to Shareholders

Highlights

- Net earnings for the six months ended June 30, 1981 were $32.2 million or 71 cents per share, compared to $28.6 million or 63 cents per share for the same period in 1980.
- Six-month cash flow was $53.8 million ($1.18 per share), in comparison to $54.7 million ($1.20 per share) for the 1980 period.
- A gas and oil exploration program will be initiated.
- Investment in forestry was increased through the purchase of 28 percent of BCFP and 100 percent of Simpson Timber Canada.
- Regulatory approval of the ethylbenzene/styrene plant was granted.

Gas and Oil

Natural gas production for the six-month period averaged 4.6 million cubic metres per day (163 million cubic feet), up 22 percent from the same period in 1980.

Shallow gas drilling continued at Suffield, with 93 gas wells drilled during the first six months bringing the total to 1,672. AEC's exploration of the deep zones in the west-central part of the Suffield Block, which has just commenced, resulted in one gas well out of two wells drilled.

The gas and oil activities at Suffield and Primrose now will be supplemented by an additional exploration program having initial emphasis on the western Canadian sedimentary basin.

At mid-year the Syncrude plant had produced an average of 9.0 thousand cubic metres (57.0 thousand barrels) of oil per day. AEC's share of this production, prior to deducting the Crown's share, was 163.8 thousand cubic metres (1.0 million barrels).

The Federal Government has tabled draft legislation which could alter the agreement for pricing of Syncrude oil on a retroactive basis. The Company and other Syncrude owners are hopeful that this unilateral proposal will be withdrawn and a fair decision reached. The accompanying financial statements reflect the price currently being received.

ALBERTA ENERGY COMPANY LTD.
Consolidated Statement of Earnings
(Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	1981	1980*	1981	1980*
	($ Millions)			
Revenues, Net of Royalties				
Gas and Oil	$ 26.0	$ 21.5	$ 52.3	$ 40.8
Pipelines	6.6	5.5	12.3	11.1
Oil Sands	29.1	35.0	48.9	43.6
Forestry	3.6	2.1	6.5	4.6
Coal	5.2	3.8	10.2	7.0
Other	—	.7	—	.8
Equity in Earnings of Affiliates	2.1	1.1	3.2	2.7
	72.6	69.7	133.4	110.6
Costs and Expenses				
Operating	29.4	26.2	52.4	43.8
Interest — Net	7.4	5.8	12.6	8.3
General and Administrative	2.6	2.1	4.9	3.7
Depreciation, Depletion and Amortization	7.7	6.1	13.5	10.7
	47.1	40.2	83.4	66.5
Earnings Before Income and Revenue Taxes	25.5	29.5	50.0	44.1
Income Taxes (Note)	5.8	9.7	11.8	15.5
Petroleum and Gas Revenue Tax	3.6	—	6.0	—
	9.4	9.7	17.8	15.5
Net Earnings	$ 16.1	$ 19.8	$ 32.2	$ 28.6
Earnings per Share	$ 0.36	$ 0.44	$ 0.71	$ 0.63

Note: A Revenue Canada ruling will allow the Company to reduce the 1981 estimated provision for income taxes. The portion reflected in the first half is $6.6 million.

ALBERTA ENERGY COMPANY LTD.
Consolidated Statement of Changes in Financial Position
(Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	1981	1980*	1981	1980*
	($ Millions)			
Source of Funds				
Cash Flow from Operations	$ 25.8	$ 36.1	$ 53.8	$ 54.7
Advances from Affiliated Companies	—	(.5)	—	.3
Deferred Revenue and Long-Term Debt	221.7	—	238.3	—
Issue of Share Capital	—	.1	—	.1
	247.5	35.7	292.1	55.1
Use of Funds				
Investment in Property, Plant, Equipment, and Other Assets	37.8	12.5	49.5	31.5
Investment in Affiliates	217.3	—	217.3	—
Repayment of Long-Term Debt	4.1	21.4	4.1	53.2
Dividends	9.1	6.8	9.1	6.8
	268.3	40.7	280.0	91.5
Increase (Decrease) in Working Capital	(20.8)	(5.0)	12.1	(36.4)
Working Capital — Beginning of Period	43.5	12.9	10.6	44.3
Working Capital — End of Period	$ 22.7	$ 7.9	$ 22.7	$ 7.9
Cash Flow per Share	$ 0.56	$ 0.79	$ 1.18	$ 1.20

** Restated to reflect 1980 changes in accounting policies.*